

Message Text

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PAGE 01 PARIS 21592 01 OF 04 080213Z
ACTION EUR-12

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EB-08 FRB-01 INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04
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R 071944Z JUL 78
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 4491
INFO AMEMBASSY BONN
AMEMBASSY LONDON
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UNCLAS SECTION 01 OF 04 PARIS 21592

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SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 20200, JUNE 24, 1978
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PAGE 02 PARIS 21592 01 OF 04 080213Z

SUMMARY

THE RETURN TO WORK OF 60,000 FRENCH MUNITIONS WORKERS
AND THE RETURN TO ALMOST NORMAL WORK IN THE RENAULT
AUTOMOBILE FACTORIES MARKED THE END OF THE PRE-
VACATION PERIOD. NO MAJOR CONCESSIONS WERE MADE

BY THE GOF, AND LABOR UNIONS OBVIOUSLY DID NOT ATTEMPT TO AGGRAVATE THE SITUATION. SUBSEQUENTLY, A NUMBER OF AGREEMENTS OF LOCAL SIGNIFICANCE WERE CONCLUDED IN PRIVATE INDUSTRY, PRINCIPALLY COVERING THE LOWEST PAID WORKERS.

THE CONSUMER PRICE INDEX IN MAY OF 1 PERCENT WAS LESS THAN EXPECTED, BUT ANOTHER ROUND OF PRICE INCREASES WAS EFFECTIVE JULY 1. THE LEGAL MINIMUM WAGE, OLD AGE PENSIONS, AND FAMILY ALLOWANCES WERE INCREASED SLIGHTLY AT THE SAME TIME.

NEWEST INSEE CONFIRMS SLOWER GROWTH RATE IN THE FALL.

BUSINESS LEADERS PREDICT SLOWDOWN IN GROWTH

INSEE'S MONTHLY POLL OF BUSINESS LEADERS, CONDUCTED IN JUNE, INDICATES THAT INDUSTRIAL PERFORMANCE MIGHT HAVE BEEN TOO STRONG IN RECENT MONTHS CONFIRMING OTHER RECENT FORECASTS. CONSEQUENTLY, INVENTORIES ARE NOW CONSIDERED TOO HIGH AND A CERTAIN NUMBER OF ENTERPRISES NOW INTEND TO REDUCE THEIR GROWTH RATE. THIS APPLIES TO CAPITAL GOODS AS WELL AS TO CONSUMER GOODS AND INTERMEDIARY GOODS.

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PAGE 03 PARIS 21592 01 OF 04 080213Z

STILL, DOMESTIC DEMAND IS CONSIDERED "NORMAL," WHILE FOREIGN DEMAND, WHICH INCREASED CONSIDERABLY EARLY THIS YEAR, NOW TENDS TO BE LESS STRONG. INDUSTRIALISTS STILL EXPECT THE INFLATIONARY TREND TO CONTINUE BUT NOT AT A HIGHER RATE THAN ONE MONTH EARLIER.

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PAGE 01 PARIS 21592 02 OF 04 080213Z
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UNCLAS SECTION 02 OF 04 PARIS 21592

INDUSTRIAL PRICES TO BE FREED FROM CONTROL EARLY

ECONOMIC MINISTER MONORY ANNOUNCED THAT AS OF JULY 1
ONE-THIRD OF INDUSTRIAL PRICES ARE ALREADY
DECONTROLLED. ALL PRICES AT THE FACTORY LEVEL
WILL BE FREED FROM CONTROL NOT LATER THAN AUGUST 31.
HE ESTIMATES THAT THIS MEASURE WILL HAVE AN
INCIDENCE OF NOT MORE THAN 1/2 TO 1 PERCENT
ON THE CONSUMER PRICE INDEX.

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PAGE 02 PARIS 21592 02 OF 04 080213Z

MAY RISE IN CPI LESS THAN EXPECTED

WHILE EARLIER, SEMI-OFFICIAL, ESTIMATES PUT MAY 1
INCREASE IN THE CPI TO 1.2 TO 1.4 PERCENT, THE
ACTUAL RISE WAS ONLY 1 PERCENT. THERE ARE SEVERAL
REASONS. THE IMPACT OF A NUMBER OF PRICE RISES
(IN PUBLIC TRANSPORTATION AND GASOLINE) WAS
EFFECTIVE FOR ONLY PART OF THE MONTH AND CALCULATED
ACCORDINGLY. FOOD PRICES ROSE BY ONLY 0.4 PERCENT,
AS EGGS DROPPED BY 4.8 PERCENT DURING THE MONTH
AND FRUITS AND VEGETABLES BY 0.1 PERCENT DUE TO C
WEATHER CONDITIONS FAVORING PRODUCTION. A RADIO

COMMENTATOR JOKED THAT BARRE WAS SAVED BY THE CHICKEN, THE POINT BEING MANUFACTURED PRODUCTS AND SERVICES WHICH REFLECT LONGER TERM COST-AND-DEMAND CONDITIONS ROSE BY 1.3 AND 1.2 PERCENT RESPECTIVELY.

NEW ROUND OF PRICE INCREASES EFFECTIVE JULY 1

AFTER EARLIER RISES IN PUBLIC UTILITIES AND THE NATIONAL RAILROAD, FARES IN THE PARIS TRANSPORTATION SYSTEM AND SUBURBAN RAILROAD TRAFFIC WERE INCREASED BY 12 TO 14 PERCENT; THE COST OF THE POPULAR MONTHLY PARIS AND SUBURBAN TRANSPORTATION PASSES, USED BY A LARGE NUMBER OF WAGE EARNERS, WENT UP 20 PERCENT. COAL PRICES FOR DOMESTIC USERS INCREASED BY 13 PERCENT, INDUSTRIAL COAL BY 5 TO 6 PERCENT. THOSE RENTS WHICH ARE GOVERNMENT CONTROLLED WENT UP BY 6.5 TO 11 PERCENT, RENTS IN SO-CALLED LOW-COST DWELLINGS BY 10 PERCENT.

MINIMUM WAGE AND SOCIAL PAYMENTS ALSO INCREASE

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PAGE 03 PARIS 21592 02 OF 04 080213Z

EFFECTIVE JULY 1 THE LEGAL MINIMUM WAGE WAS RAISED BY 3.8 PERCENT TO F 10.85 PER HOUR OR F1,888 PER MONTH BASED ON A 40-HOUR WORK WEEK. THE RISE IN THE CONSUMER PRICE INDEX ALONE WOULD HAVE MADE A 2.1 PERCENT INCREASE MANDATORY; THE ADDITIONAL 1.7 PERCENT REFLECTS GOF POLICY TO DO SOMETHING FOR THE LOWEST PAID. SOCIAL INSURANCE OLD AGE PENSIONS WERE INCREASED BY 4.4 PERCENT; ANOTHER INCREASE OF 6.6 PERCENT IS TO FOLLOW IN JANUARY 1979. FAMILY ALLOWANCES WERE RAISED BY 3.9 PERCENT. MINIMUM OLD AGE ASSISTANCE TO F12,000 PER YEAR (F32.87 DAILY) FROM 11,000 (F30.16 DAILY). TWO MILLION TWO HUNDRED THOUSAND PERSONS ARE RECIPIENTS OF SUCH ASSISTANCE.

NUMBER OF BUSINESS FAILURES DECLINED IN MAY

THE NUMBER OF BUSINESS FAILURES DECLINED IN MAY FOR THE SECOND CONSECUTIVE MONTH. CORRECTED FOR SEASONAL VARIATIONS, THERE WERE 1,171 FAILURES, DOWN FROM 1,343 IN APRIL AND 1,504 IN MARCH. ALL THESE FIGURES ARE STILL WELL ABOVE THE 1977 DATA AND INSEE COMMENTED THAT THE PRESENT DECLINE WOULD BE A TEMPORARY PHENOMENON AND THE GENERAL TREND IS STILL UPWARDS. THE RECENT DECLINE IS ACROSS THE BOARD AND NOT LIMITED TO ANY PARTICULAR SECTOR.

FRENCH GOODS GETTING MORE COMPETITIVE

ACCORDING TO INSEE'S SEMI-ANNUAL SURVEY, FRENCH INDUSTRIALISTS FEEL LESS COMPETITION FROM FOREIGN GOODS ON DOMESTIC MARKETS WHILE FOREIGN COMPETITION REMAINS STIFF FOR FRENCH GOODS ON FOREIGN MARKETS. CONSEQUENTLY, THEY NOW EXPECT EXPORTS TO DEVELOP LESS RAPIDLY THAN DOMESTIC SALES. EXPORTS ARE STILL EXPECTED TO INCREASE BUT AT A SLOWER PACE.
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PAGE 04 PARIS 21592 02 OF 04 080213Z

AS FAR AS THE DOMESTIC MARKET IS CONCERNED, ENTERPRISES FEEL AN IMPROVEMENT OF THEIR COMPETITIVENESS,

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PAGE 01 PARIS 21592 03 OF 04 080215Z
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UNCLAS SECTION 03 OF 04 PARIS 21592

PARTICULARLY IN CONSUMER GOODS, EXCEPT FOR HOUSEHOLD EQUIPMENT, AND ALSO TO SOME EXTENT IN CLOTHING AND LEATHER GOODS. IN THE CAPITAL GOODS SECTOR, FOREIGN COMPETITION IS STILL STRONG, PARTICULARLY FOR TRANSPORT EQUIPMENT.

LIQUIDITY POSITION IN FRENCH ENTERPRISES VARIES ACCORDING TO SECTOR

ACCORDING TO INFORMATION OBTAINED FROM 2,300 BUSINESS LEADERS IN MAY, INSEE FINDS THAT UNCLASSIFIED

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PAGE 02 PARIS 21592 03 OF 04 080215Z

THERE ARE LARGE DISPARITIES IN THE FRENCH ENTERPRISES LIQUIDITY POSITION.

THE SITUATION DEVELOPED FAVORABLY SINCE DECEMBER IN THE CONSUMER GOODS SECTOR, WHERE BUSINESS RESULTS ARE ALSO BETTER THAN IN THE OTHER SECTORS OF ACTIVITY.

THE FINANCIAL SITUATION IN A LARGE NUMBER OF ENTERPRISES MANUFACTURING CAPITAL GOODS, DETERIORATED OVER THE LAST SIX MONTHS, WHICH IS PARTLY ASCRIBED TO A LACK OF ORDERS IN THE PRE-ELECTORAL FIRST QUARTER. THE SITUATION IN THE INTERMEDIATE GOODS SECTOR REMAINS TIGHT.

BUSINESS LEADERS EXPECT THE SITUATION TO IMPROVE FURTHER IN THE CONSUMER GOODS SECTOR, AND ALSO SOME IMPROVEMENT IN THE OTHER SECTORS.

INTEREST RATES DECLINED FRACTIONALLY

EFFECTIVE JULY 1 THE PRIME RATE WAS FINALLY LOWERED TO 9.05 PERCENT FROM 9.30. THIS DECLINE WAS EXPECTED FOR SOME TIME AND PREDICTED BY ECONOMICS MINISTER MONORY.

MONEY RATES DECLINED VERY SLIGHTLY DURING THE REPORTING PERIOD TO 7 1/4 FOR CALL MONEY FROM 7 1/2 - 7 3/8 TWO WEEKS AGO.

STOCK EXCHANGE STABLE

AVERAGE STOCK PRICES WERE ON THE SAME LEVEL AS

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PAGE 03 PARIS 21592 03 OF 04 080215Z

TWO WEEKS AGO.

ON THE FOREX MARKET THE FRANC TENDS TO BE FIRM
VIS-A-VIS DM AND SWISS FRANC WHERE IT
GAINED SLIGHTLY OVER ONE PERCENT WHILE IT
STRENGTHENED BY ABOUT 3 PERCENT VIS-A-VIS THE DOLLAR.
ACCORDING TO MARKET SOURCE, THE MARKET EXPECTS THE
FRANC TO BE FIRM OVER THE NEXT THREE TO
SIX MONTHS, WITH STILL SOME DOUBT SUBSISTING
FOR LONGER PERIODS.

NEW GOVERNMENT LOAN

THE GOVERNMENT ANNOUNCED THAT A 2 1/2 BILLION FRANC
15 YEAR LOAN AT 9.8 PERCENT WILL BE LAUNCHED ON
JULY 12. IT WILL HELP FINANCE THE BUDGET DEFICIT
WHICH IS NOW SET AT ABOUT F20 BILLION.

THIS IS THE SECOND OF A SERIES OF RELATIVELY SMALL
LOANS LIKELY TO BE ISSUED. A THIRD ONE IS
EXPECTED IN SEPTEMBER.

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PAGE 01 PARIS 21592 04 OF 04 080217Z
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UNCLAS SECTION 04 OF 04 PARIS 21592

MONEY SUPPLY DATA DELAYED

DUE TO A MODIFICATION IN THE SYSTEM OF MONEY
 SUPPLY STATISTICS, THIS DATA FOR THE FIRST SIX MONTHS
 OF THIS YEAR WILL BE AVAILABLE ONLY WITH CONSIDERABLE
 DELAY AND ITS PRESENTATION DURING THIS PERIOD WILL
 NOT BE AS COMPLETE AS FORMERLY. WE CURRENTLY HAVE
 AVAILABLE ONLY SEASONALLY UNADJUSTED DATA
 FOR JANUARY AND FEBRUARY BASED ON THE NEW SERIES;
 SEASONALLY ADJUSTED DATA IS AVAILABLE ONLY ON THE
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PAGE 02 PARIS 21592 04 OF 04 080217Z

BASIS OF GROWTH RATES.

UNADJUSTED MONEY SUPPLY (BILLIONS OF FRANCS)

	DEC'77	JAN'78	FEB'78
M1	522.6	491.8	493.9
QUASI-MONEY		475.7	485.0 487.5
M2	998.3	976.8	981.4

COUNTERPARTS

GOLD AND FOREIGN EXCHANGE	46.3	45.2	43.7
CLAIMS ON THE PUBLIC SECTOR	116.5	123.1	121.7
CLAIMS ON THE PRIVATE SECTOR	898.4	877.5	879.7

SEASONALLY ADJUSTED MONEY SUPPLY (RATE OF CHANGE FROM PREVIOUS MONTH)

	JAN'78	FEB'78
M1	0.9	2.8
QUASI-MONEY	--	1.2
M2	0.7	1.8

OTHER REPORTS SUBMITTED DURING THE PERIOD

TELEGRAMS

21095 BIOGRAPHIC MATERIAL FOR BONN SUMMIT
20805 GISCARD SPECIAL DEVELOPMENT PROGRAM FOR AFRICA
20451 VISIT BY NATIONAL BANK EXAMINERS
20160 JUNE 22-23 EXPERTS MEETING TO DISCUSS
GISCARD SPECIAL DEVELOPMENT PROGRAM FOR AFRICA
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PAGE 03 PARIS 21592 04 OF 04 080217Z

21242 HUMAN RIGHTS IN ARGENTINA: IFI & EXIM CREDITS

AIRGRAMS

172, 173, 180 - FRENCH FOREIGN EXCHANGE HOLDINGS
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